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S E C R E T SECTION 01 OF 05 ABU DHABI 003777
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SUBJECT: THOUGHTS ON IRAN - THE LION AND THE CAGE

REF: STATE 15528

11. (U) CLASSIFIED BY: DAVID D. PEARCE, CONSUL GENERAL.

12. (S) SUMMARY

THIS CABLE EXAMINES SOME OF THE VARIABLES AFFECTING IRANIAN GOVERNMENT DECISIONMAKING -- ESPECIALLY REGARDING POLICIES WE OPPOSE -- FROM THE PERSPECTIVE OF THE WIDE VARIETY OF IRANIAN CONTACTS WE INTERVIEW IN DUBAI. WE HAVE CONCLUDED THAT THE REGIME VIEWS SOME ISSUES, INCLUDING ITS EFFORTS TO ACQUIRE WEAPONS OF MASS DESTRUCTION AND THE ASSASSINATION OF POLITICAL OPPONENTS, AS SURVIVAL ISSUES. ON THESE, IT IS UNLIKELY TO NEGOTIATE MEANINGFULLY, AT LEAST IN THE SHORT TERM. OTHER POLICIES OF CONCERN, INCLUDING SUPPORT FOR VIOLENT OPPOSITION TO THE PEACE PROCESS, ARE RESPECT ISSUES. THESE STEM FROM AN IMPULSE TO DEMONSTRATE IRANIAN INDEPENDENCE, ESPECIALLY VIS-A-VIS THE U.S. BUT UNLIKE SURVIVAL ISSUES, RESPECT ISSUES ARE SUSCEPTIBLE TO CHANGE IN THE RIGHT CIRCUMSTANCES.

13. (S) OUR IRANIAN CONTACTS BELIEVE THE REGIME MAY BE OPEN TO SUCH CHANGE, BUT WITHOUT APPEARING SO. THAT MEANS ANY TURNAROUND ON KEY ISSUES WILL BE INCREMENTAL, AND POSSIBLY ACCOMPANIED BY A FEINT IN THE OPPOSITE DIRECTION. ON THE BIGGEST ISSUE OF ALL FOR IRAN -- RELATIONS WITH THE U.S. -- REGIME LEADERS REALIZE THAT DIALOGUE AND RENEWAL OF TIES ARE INEVITABLE, BUT THEY REMAIN DEEPLY DIVIDED OVER HOW AND WHEN THIS SHOULD OCCUR. THE IRANIANS WE HAVE SPOKEN WITH AFFIRM THAT IRAN HAS INDEED FELT THE EFFECTS OF U.S. PRESSURE BUT THAT THE IRANIAN GOVERNMENT ALSO WILL PROVE HIGHLY RESISTANT TO MAKING POLICY CHANGES IN THE FACE OF THAT PRESSURE. SOME ACTIONS, NOTABLY HIGH-LEVEL PUBLIC STATEMENTS, CAN ACTUALLY LENGTHEN THE ODDS AGAINST CHANGE. EVEN WHERE WE HAVE HAD MOST EFFECT, E.G. LIMITING ACCESS TO FOREIGN INVESTMENT IN IRAN'S OIL SECTOR, SOME OF OUR CONTACTS WARN THE EFFECTIVENESS OF PRESSURE WILL DIMINISH OVER TIME AS IRAN'S ABILITY TO COPE IMPROVES. AT THE SAME TIME, THE REGIME HAS REAL VULNERABILITIES, AND IF SANCTIONS ALONE DO NOT A POLICY MAKE, SANCTIONS CAN AND SHOULD BE A USEFUL ADJUNCT OF POLICY, ASSUMING WE WORK WITH ALLIES TO FASHION A COMMON POLITICAL UNDERPINNING FOR JOINT ACTION. END SUMMARY.

14. (U) INTRODUCTION

THIS MESSAGE WAS DRAFTED BY THE CONSUL GENERAL IN DUBAI, DRAWING ON THE OBSERVATIONS AND EXPERIENCE OF ALL IRAN REPORTERS AT THE CONSULATE GENERAL. THE DRAFT WAS COORDINATED CLOSELY WITH EMBASSY ABU DHABI.

15. (S) SURVIVAL AND RESPECT

THE U.S. HAS SOUGHT TO USE SANCTIONS AND PRESSURE TO CONTAIN IRAN. UNDERSTANDING THE MOTIVES BEHIND IRAN'S POLICIES IS THE FIRST STEP TOWARD EVALUATING THE EFFECTIVENESS OF OUR POLICY TOWARD IRAN. FROM OUR DISCUSSIONS WITH A WIDE VARIETY OF IRANIAN BUSINESSMEN, GOVERNMENT AND TECHNOCRATS, PROFESSIONALS AND ACADEMICS, THE PRIORITIES OF THE CLERICAL REGIME APPEAR TO BE CHanneled THROUGH TWO MAIN FILTERS: 1) SURVIVAL, AND 2) RESPECT. ISSUES THE REGIME BELIEVES AFFECT ITS SURVIVAL ARE NOT NEGOTIABLE, AT LEAST IN THE SHORT TERM. BY CONTRAST, ISSUES CONCERNING RESPECT FOR IRAN'S INDEPENDENCE OF ACTION CAN CHANGE IN THE RIGHT CIRCUMSTANCES.

16. (S) IRAN-E ZAMIN, THE LAND OF IRAN
IT IS CLEAR FROM MANY CONVERSATIONS THAT IRANIANS HAVE A VERY DISTINCT NOTION IN THEIR MIND'S EYE OF WHAT THE COUNTRY'S SPHERE OF INFLUENCE SHOULD BE. IT EVEN HAS A NAME: IRAN-E ZAMIN, THE LAND OF IRAN. IRAN-E ZAMIN GOES BEYOND THE ACCEPTED CURRENT BORDERS OF IRAN, AND IS ROUGHLY DEFINED BY THE EXTENT OF IRAN'S TRADITIONAL CULTURAL INFLUENCE. TO THE EAST, THIS AREA INCLUDES WESTERN AFGHANISTAN, TO THE NORTH IT INCLUDES CONTIGUOUS AREAS OF CENTRAL ASIA, AZERBAIJAN, AND ARMENIA, AND TO THE WEST AND SOUTH IT INCLUDES KURDISH AREAS, EASTERN IRAQ, AND THE ENTIRE ARAB LITTORAL OF THE PERSIAN GULF. IRAN-E ZAMIN IS A GEO-STRATEGIC CONCEPT. THE ARAB-ISRAELI PEACE PROCESS FALLS OUTSIDE THE ENVELOPE; THE DISPUTE WITH THE UAE OVER THREE SMALL ISLANDS FALLS WITHIN. IRAN-E ZAMIN IS ALSO DISTINCT FROM THE RULING CLERICS' RELIGIOUS AFFINITY FOR SHIA COMMUNITIES, E.G. IN SOUTH LEBANON, WHICH -- ALTHOUGH PERHAPS GENUINELY FELT BY SOME IRANIAN SHIA -- IS FAR LESS DEEPLY ROOTED.

17. (S) NEGOTIABLE AND NON-NEGOTIABLE
THIS REGIME HAS SHOWN THAT, IF ITS SURVIVAL IS PERCEIVED TO BE IN PLAY, IT WILL EMPLOY ANY AVAILABLE MEANS, WHETHER TERRORISM ABROAD OR INTERNAL REPRESSION AT HOME, TO COMBAT THE SUPPOSED THREAT. THIS IS THE INGREDIENT THAT MAKES THE DIFFERENCE BETWEEN RHETORICAL ATTACKS AND SUICIDE ATTACKS, BETWEEN CLOSING DOWN NEWSPAPERS AND ASSASSINATING OPPONENTS. WHETHER EXTERNAL OR INTERNAL, THE REGIME DOES NOT CONSIDER SURVIVAL ISSUES NEGOTIABLE. "THEY LEARNED FROM THE SHAH'S MISTAKES," AN IRANIAN BUSINESS CONTACT EXPLAINED. "IF FOUR PEOPLE GATHER, THEY BREAK IT UP. THEY WON'T LET THE SAME HAPPEN TO THEM AS HAPPENED TO THE SHAH. AND IF NECESSARY, THEY WILL KILL."

18. (S) WMD -- NO QUICK TURNAROUND
ONE SUCH ISSUE IS WEAPONS OF MASS DESTRUCTION. AS WITH INDIA AND PAKISTAN, THE PROBLEM WITH IRAN IS LIKELY TO BE BOTH DIFFICULT AND LONG-TERM, AND REQUIRE CAREFUL MONITORING. IRAQ USED CHEMICAL WEAPONS AGAINST IRAN AND CAME CLOSE TO DEVELOPING A NUCLEAR BOMB. RUSSIA, PAKISTAN, AND INDIA ALL HAVE NUCLEAR WEAPONS. THE IRANIANS CONSIDER ISRAEL A NUCLEAR THREAT, AND A HOSTILE U.S. HAS NUCLEAR-CAPABLE FORCES PRESUMED TO BE RANGED ALONG THE IRANIAN COASTLINE IN THE GULF. IN THIS SITUATION, ANY REGIME IN IRAN IS LIKELY TO PURSUE EFFORTS TO GET THE BOMB AS A TOP NATIONAL SECURITY PRIORITY, WHATEVER THE PROTESTATIONS TO THE CONTRARY. IN THE END, THE BEST DETERRENT WILL BE THE REBIRTH OF RESPONSIBLE INTERNATIONAL BEHAVIOR IN IRAN ITSELF -- BUT THIS IS A MEDIUM- TO LONG-TERM OBJECTIVE AT BEST, WITH SCANT PROSPECT OF POSITIVE MOVEMENT WHILE IRAN'S LEADERSHIP IS FEELING ISOLATED AND BESIEGED.

19. (S) ASSASSINATIONS -- UNEASY LIES THE TURBAN
ANOTHER SURVIVAL ISSUE, ALTHOUGH POSSIBLY NOT QUITE SO LONG-TERM, IS THE USE OF ASSASSINATIONS AS STATE POLICY. OVER THE YEARS, THE TEHRAN REGIME HAS BEEN IN THE HABIT OF KILLING ITS OPPONENTS, WHETHER AT HOME OR ABROAD. THIS IS ESPECIALLY TRUE FOR GROUPS SUCH AS THE IRAQ-SUPPORTED MUJAHEDIN-E KHALQ, WHOM THE IRANIAN GOVERNMENT HOLDS RESPONSIBLE FOR VARIOUS ASSASSINATIONS AND TERRORIST BOMBINGS INSIDE IRAN. THE IRANIANS WE MEET HERE DO NOT ENDORSE THE REGIME'S KILLINGS; MOST FIND THEM ABHORRENT. BUT THEY SHRUG AND SAY IT'S IN THE NATURE OF THIS CLERICAL REGIME. SOME GO ON TO ACCUSE THE U.S. OF SELECTIVE INDIGNATION, AND POINTEDLY RECALL WHAT THEY CONSIDER THE COMPARATIVELY MUTED OFFICIAL U.S. REACTION OVER THE YEARS TO ASSASSINATIONS OF PALESTINIANS ALLEGEDLY AT THE HANDS OF ISRAELI AGENTS IN EUROPEAN AND MIDDLE EAST COUNTRIES.

110. (S) EVEN IF THE MYKONOS TRIAL BRINGS THE U.S. AND EUROPE CLOSER TO A MEETING OF THE MINDS ON IRAN, OUR CONTACTS BELIEVE THE CURRENT SIEGE MENTALITY OF IRAN'S TOP RULERS WILL MAKE THEM RELUCTANT TO LET GO OF THE VIEW THAT ASSASSINATION IS A LEGITIMATE INSTRUMENT OF STATE POLICY. THEY MAY REGRET GETTING CAUGHT. IT IS EVEN POSSIBLE THAT THEY WILL SCALE BACK OR SHIFT SUCH OPERATIONS, E.G. FROM EUROPE TO SOUTH ASIA, IN RESPONSE TO PUBLIC RELATIONS

PROBLEMS AND STRAINS IN KEY TRADING RELATIONSHIPS. BUT THEY ARE ONLY LIKELY TO STOP WHEN THEY FEEL SUFFICIENTLY SECURE IN THEIR SEATS TO CONSIDER THAT THEIR OPPONENTS NO LONGER POSE A SERIOUS THREAT. AT THAT POINT, OF COURSE, IT IS NO LONGER A SURVIVAL ISSUE. IF CHANGE COMES ON THIS FRONT IT WILL BE A MATTER OF OUR KNOWING IT WHEN WE NO LONGER SEE IT. IT WILL NEITHER BE ANNOUNCED OR ACKNOWLEDGED, WHETHER IN PUBLIC OR PRIVATE CHANNELS.

¶11. (S) THE QUEST FOR RESPECT
IN CONTRAST TO THESE PERCEIVED SURVIVAL ISSUES, POLICIES THAT ARE MAINLY MANIFESTATIONS OF THE IRANIAN QUEST FOR INDEPENDENCE MAY BE NEGOTIABLE. THE IRANIAN REVOLUTION WAS ABOUT RESPECT -- BOTH SELF-RESPECT, AND EARNING THE RESPECT OF OTHERS FOR THE INDEPENDENCE OF IRANIAN DECISIONMAKING. SINCE THE U.S. WAS FIRMLY IDENTIFIED WITH THE SHAH, INDEPENDENCE FROM U.S. INFLUENCE BECAME, AND REMAINS, A CRITICAL ELEMENT IN THE REGIME'S SEARCH FOR LEGITIMACY. THIS IS WHY THE U.S. STATUS OF FORCES AGREEMENT WITH IRAN BECAME SUCH AN ICON IN THE COURSE OF AYATOLLAH KHOMEINI'S YEARS-LONG STRUGGLE WITH THE SHAH. REFERRING TO IMMUNITY FROM PROSECUTION IN IRANIAN COURTS FOR U.S. MILITARY AND CIVILIAN PERSONNEL, KHOMEINI FULMINATED THAT THEY HAVE REDUCED THE IRANIAN PEOPLE "TO A LEVEL LOWER THAN THAT OF AN AMERICAN DOG." ON THIS COUNT -- ASSERTING IRANIAN INDEPENDENCE -- EVEN PRO-SHAH IRANIANS GIVE THE ISLAMIC REGIME CREDIT. THEREFORE, A PREEMINENT CONSIDERATION FOR IRAN'S RULERS ON ANY CONTACTS WITH THE U.S., WILL BE HOW TO ENGAGE WITHOUT APPEARING TO COMPROMISE THIS PRIZED INDEPENDENCE. FOR THAT REASON, NO IRANIAN LEADERS CAN BE SEEN TO BE ACCEPTING "U.S. PRECONDITIONS" FOR DIALOGUE, EVEN IF THEY WANT TO.

¶12. (S) BECAUSE THE INDEPENDENCE THEME HAS SO MUCH RESONANCE WITH THE POPULATION AT LARGE, THE RULING CLERICS PROBABLY FIND EXTERNAL PRESSURE BY THE U.S. AND OTHERS QUITE USEFUL INTERNALLY. OUR IRANIAN CONTACTS FIND IT INCREDIBLE THAT WE SEEM NOT TO SEE THIS. IN FACT, THEY FIND IT SO INCREDIBLE THAT THEY BELIEVE WE ACTUALLY DO SEE IT BUT ARE CHOOSING TO DELIBERATELY AND SUBTLY HELP THE REGIME. THEREFORE, THE REASONING GOES, THE U.S. HAS SOME NEFARIOUS PURPOSE IN MIND AND HAS STRUCK A FAUSTIAN BARGAIN TO KEEP THE CURRENT REGIME IN POWER AT THE EXPENSE OF THE IRANIAN PEOPLE. THIS MAKES THEM DESPAIR; ONCE AGAIN, THEY SEE THEIR FATE AS IN THE HANDS OF MANIPULATIVE GREAT POWERS OUTSIDE THEIR BORDERS. FROM HERE IT IS ONLY A SHORT LEAP TO THE FERVENT STATEMENT THAT THE U.S. OUSTED THE SHAH AND INSTALLED KHOMEINI BECAUSE IRAN WAS BECOMING TOO POWERFUL IN THE REGION FOR OUR TASTE. ALTHOUGH THIS MAY SOUND INCREDIBLE AND FAR-FETCHED TO AMERICAN EARS, VARIANTS OF THIS BELIEF ARE AMAZINGLY WIDESPREAD AMONG THE IRANIANS WE MEET. WE NOTE THAT THERE HAVE BEEN ECHOES OF THE SAME THEME IN ANKARA'S REPORTING, AS WELL AS IN SOME PRESS ACCOUNTS.

¶13. (S) IRANIAN OPPOSITION TO THE PEACE PROCESS -- THE HOLE CARD
IT IS NOTEWORTHY THAT SEVERAL OF OUR IRANIAN SOURCES HAVE SEPARATELY COMMENTED TO US THAT THEY SEE THE IRANIAN GOVERNMENT'S POLICY VIS-A-VIS THE MIDDLE EAST PEACE PROCESS (MEPP) IN TERMS OF THE INDEPENDENCE ISSUE. IT IS STRIKING -- AND IN VERY DISTINCT CONTRAST TO OUR ARAB CONTACTS -- THAT MOST IRANIANS WE MEET COULDN'T CARE LESS ABOUT THE ARAB-ISRAELI CONFLICT. OUR CONTACTS, INCLUDING FREQUENT AND WELL-CONNECTED VISITORS TO IRAN, INTERPRET IRAN'S ACTIONS ON THE PEACE PROCESS AS CALCULATED TO SHOW INDEPENDENCE OF DECISIONMAKING, ESPECIALLY VIS-A-VIS THE U.S. THE SUBSTANCE OF THE ISSUE, HOWEVER, IS NOT A SURVIVAL MATTER AND FALLS WELL OUTSIDE THE CORE DOMAIN OF IRANIAN NATIONALIST CONCERNS. SO THEORETICALLY AT LEAST, THIS POLICY IS SUSCEPTIBLE TO CHANGE.

¶14. (S) OUR CONTACTS BELIEVE THE REGIME CALCULATES THAT THE ARAB-ISRAELI PEACE PROCESS, AND SPECIFICALLY SUPPORT FOR ISRAEL, IS THE SINGLE MOST NEURALGIC BUTTON THEY CAN PRESS WITH THE U.S. THAT MAKES IT AN EXTREMELY HIGH-VALUE CARD, WHETHER FOR ASSERTING IRANIAN INDEPENDENCE OF THE U.S. OR, EVENTUALLY, FOR BARGAINING. SINCE IT IS A BAZAAR

ISSUE, THOUGH, IT LIKELY WILL ONLY BE PLAYED IN THE CONTEXT OF RELATIONS WITH THE U.S. AND EVEN THEN ONLY IN THE CONTEXT OF A MAJOR QUID-PRO-QUO. UNTIL THEN, THERE IS NOT MUCH CHANCE OF SIGNIFICANT MOVEMENT ON THIS IRANIAN POLICY, INTERNATIONAL PRESSURE NOTWITHSTANDING. WHAT IS AT STAKE IS NOT PRINCIPLE OR SURVIVAL, BUT THE PERCEPTION OF INDEPENDENT DECISIONMAKING AND TRADING VALUE, BOTH OF WHICH WILL BE WEIGHED CAREFULLY AGAINST PROSPECTIVE GAINS.

¶15. (S) IRANIAN QUIDS -- "B1" HAGUE CLAIM TOPS THE LIST WHAT WOULD THE IRANIAN QUIDS BE? REPEATED STATEMENTS BY IRANIAN PRESIDENT RAFSANJANI SUGGEST THAT THE MAIN QUID IRAN SEEKS FROM THE U.S. IN ANY TALKS IS A LUMP-SUM SETTLEMENT OF OUTSTANDING HAGUE TRIBUNAL CLAIMS, ESPECIALLY THE "B1" FMS CLAIM. RAFSANJANI HAS SPOKEN OF RELEASE OF THIS MONEY AS THE "GOOD WILL" GESTURE REQUIRED EVEN TO START ANY SERIOUS DIALOGUE. AT THE SAME TIME, HE KNOWS THE ISSUE HAS BEEN LITIGATED AT THE HAGUE FOR YEARS AND IT IS DOUBTFUL HE WOULD REALLY EXPECT TO GET SUCH A GESTURE FOR NOTHING. MORE LIKELY, HE IS SETTING UP A CONDITION FOR TALKS HE KNOWS WE WON'T MEET AS A SMOKESCREEN -- BECAUSE HE KNOWS THE IRANIAN SIDE ITSELF HAS NO CONSENSUS YET FOR DISCUSSIONS WITH THE U.S.

¶16. (S) THE PUBLIC SIDE OF IRANPOLICY: LESS IS MORE THE IRANIANS HATE BEING IGORED. THE MORE WE LAMBASTE THE ISLAMIC REPUBLIC, THE BETTER THIS REGIME LIKES IT. U.S. STATEMENT DON'T CHANGE IRANIAN POLICY, BUT THEY ARE BIG-TIME NEGATIVE ATTENTION, AND THIS IS PURE GOLD FOR THE REGIME'S INTERNAL USE. WHAT THEY FIND TOUGH TO FIELD ARE THINGS LIKE FORMER ASSISTANT SECRETARY PELLETTREAU'S STATEMENT IN DUBAI LAST WINTER. THIS KIND OF FACTUAL, SENSIBLE RESTATEMENT OF POLICY REASSURES ALLIES AND PUTS THE IRANIAN GOVERNMENT ON THE DEFENSIVE.

¶17. (S) LOOKING AHEAD -- IRAN AND THE U.S. UNDERLYING ALL OF OUR DISCUSSIONS WITH IRANIANS IN THE UAE IS THE ASSUMPTION THAT THERE IS NO BIGGER ISSUE IN IRAN THAN RELATIONS WITH THE U.S. AT SOME POINT, REGIME LEADERS KNOW DIALOGUE AND RENEWED RELATIONS ARE INEVITABLE. BUT OPINIONS ARE DIVIDED ON HOW AND WHEN THIS SHOULD OCCUR. SOME IRANIAN LEADERS FEAR THE VERY ACT OF ENGAGING US WILL UNDERMINE THEIR OWN POSITION. BEING ANTI-U.S. IS PART OF THE COIN OF REGIME LEGITIMACY. THOSE WHO SPEAK OF RENEWED DIPLOMATIC TIES WITH THE U.S. RISK TARNISHING THEIR DOMESTIC POLITICAL CREDENTIALS. IT'S LIKE WHAT BEING "SOFT ON COMMUNISM" USED TO BE IN THE U.S. ANOTHER CONSIDERATION, ACCORDING TO SOME IRANIAN CONTACTS, IS CONCERN ABOUT NOT BEING ABLE TO MEET THE HIGH EXPECTATIONS FOR BETTER TIMES THAT CONTACTS WITH THE U.S. WOULD GENERATE -- ESPECIALLY AFTER YEARS OF BLAMING US FOR ALL THEIR PROBLEMS. STILL OTHERS, INCLUDING REGIME OPPONENTS, BELIEVE THAT RESUMPTION OF RELATIONS WITH THE U.S. WILL MARK THE FINAL GREENING OF THE REVOLUTION AND SIGNAL THAT THE ISLAMIC REPUBLIC IS HERE TO STAY.

¶18. (S) FROM THE IRANIAN REGIME'S PERSPECTIVE, THE UNITED STATES HAS CONTROL OVER THEIR DESTINY. THEY TRULY WORRY THAT WE CAN UNSEAT THEM IF WE WISH. EVEN IF THEY CALCULATE THAT WE HAVE NO PRESENT INTENTION TO DO SO, THEY PROBABLY NURSE FEARS THIS COULD CHANGE, E.G., WITH THE RESULTS OF THE KHOBAR INVESTIGATION. THUS, RELATIONS WITH THE U.S. ARE AS MUCH A DOMESTIC AS A FOREIGN POLICY ISSUE FOR IRAN. IT IS ALSO, FOR THIS REGIME, A SENSITIVE BORDERLINE SURVIVAL ISSUE--THIS DESPITE THE FACT THAT THE U.S. HAS NO PRESENCE AND LITTLE INFLUENCE IN IRAN. OF COURSE, FROM OUR POINT OF VIEW, THIS ABSENCE OF DIRECT CONTACTS PUTS US AT A DISADVANTAGE IN BRINGING DIRECT PRESSURE TO BEAR TO ADVANCE OUR INTERESTS. THE IRANIANS DON'T SEE IT THIS WAY.

¶19. (S) FOR ALL THESE REASONS, WE SHOULD EXPECT NO SUDDEN MOVE IN RELATIONS WITH THE U.S. KEEPING UP APPEARANCES WILL BE A MAJOR CONSIDERATION. WHEN CHANGE COMES, IT WILL BE GRADUAL AND POSSIBLY ACCOMPANIED BY EFFORTS TO EMPHASIZE IRANIAN INITIATIVES WHILE DOWNPLAYING THE SIGNIFICANCE OF ANY STEPS TAKEN.

120. (S) SO, WHAT TO DO?

IT IS CLEAR FROM OUR CONTACTS THAT THE U.S. EMBARGO HAS BEEN A SIGNIFICANT HEADACHE FOR THE IRANIAN GOVERNMENT, NOTABLY IN DRIVING UP COSTS FOR SOME KEY ITEMS AND IN LIMITING ACCESS TO OIL SECTOR INVESTMENT. BUT ON THE TRADE SIDE GENERALLY, OUR IRANIAN INTERLOCUTORS CONSIDER THE UNILATERAL U.S. EMBARGO MORE IN THE CATEGORY OF A NUISANCE THAN A SERIOUS IMPEDIMENT TO BUSINESS. THIS IS BECAUSE ITS BROAD GAUGE MAKES THE EMBARGO DIFFICULT TO ENFORCE, AND SINCE NO OTHER COUNTRIES SUPPORT IT, U.S. IMPORTS CAN USUALLY BE SUBSTITUTED. FOR THEIR PART, AMERICAN BUSINESSMEN IN THE UAE ARE GENERALLY SCRUPULOUS ABOUT ADHERING CAREFULLY TO U.S. LAW, BUT DISDAINFUL OF THE POLICY AS BOTH INEFFECTIVE AND HARMFUL TO U.S. COMMERCIAL INTERESTS. IF THE POLICY ACTUALLY WORKED, THEY SAY, THEY WOULD BE A LOT MORE SUPPORTIVE, BUT WITH THE U.S. ACTING UNILATERALLY THEY SEE THEMSELVES EXCLUDED FROM AN IMPORTANT MARKET EVEN AS THEIR COMPETITORS TAKE ADVANTAGE. BOTH IRANIAN AND U.S. BUSINESSMEN WILL BE WATCHING TO SEE IF THE FALLOUT FROM THE MYKONOS VERDICT LEADS TO MORE COMMON GROUND BETWEEN THE U.S. AND ITS ALLIES.

121. (S) THE LIMITS OF ECONOMIC PRESSURE

THE ISSUE OF WHETHER SANCTIONS WORK OFTEN COMES UP IN CONVERSATION HERE. THE JEWEL IN THE CROWN OF SANCTIONS IS FINANCIAL PRESSURE, ESPECIALLY OUR SUCCESSFUL EFFORTS TO LIMIT IRAN'S ACCESS TO INTERNATIONAL FINANCING FOR DEVELOPMENT OF ITS OIL/GAS INDUSTRY. BUT WE SHOULD NOT FORGET THAT THIS SUCCESS STEMS NOT JUST FROM OUR POLICY BUT FROM PRACTICAL FINANCIAL CALCULATIONS. THE 1993 DEBT CRISIS DEPRIVED IRAN OF OFFICIALLY-BACKED EXPORT CREDITS AS CREDITORS WAITED TO SEE HOW IRAN WOULD MEET THE VARIOUS RESCHEDULING OBLIGATIONS NEGOTIATED IN 1994. SO FAR, IT HAS DONE SO.

122. (S) IN ADDITION, EVEN IF WE MANAGE TO KEEP THE FINANCIAL LID ON, SOME INDUSTRY EXPERTS CAUTION THAT THE EFFECTIVENESS OF THE PRESSURE WILL DIMINISH WITH TIME, AT LEAST AS FAR AS OIL/GAS DEVELOPMENT GOES. IN THAT REGARD, A SENIOR BRITISH PETROLEUM (BP) EXECUTIVE RECENTLY TOOK ISSUE WITH CONSUL GENERAL'S SUGGESTION THAT IRAN WOULD INCREASINGLY FEEL THE PINCH OF ITS LIMITED ACCESS TO FINANCE FOR OIL/GAS SECTOR DEVELOPMENT. WHILE THE EXECUTIVE READILY AGREED THAT MAJORS LIKE BP MAY STAY OUT OF IRAN FOR NOW DUE TO U.S. PRESSURE, HE FELT THE EFFECT WOULD BE SHORT-TERM -- NO MORE THAN FIVE YEARS OR SO. AND EVEN IF THE MAJORS DO CONTINUE TO STAY OUT LONGER THAN THAT DUE TO U.S. PRESSURE -- WHICH HE DOUBTED -- THE TECHNOLOGY IS SUCH THAT IT WILL COST IRAN "MUCH LESS THAN WE THINK" TO DEVELOP THEIR FIELDS. "IF THEY CAN'T GET THE BIG GUYS," HE SAID, "THEY'LL BRING IN THE LITTLE GUYS, GET SOME THINGS FROM ABROAD, LEARN OTHER THINGS THEMSELVES, AND DEVELOP NEW, SMALL-SCALE FIELDS RATHER THAN FIX UP OLD LARGE ONES." THE EXECUTIVE NOTED THAT THE IRANIANS ARE EXPERT AT DRILLING. IF NECESSARY, HE SAID, THEY'LL JUST SHUT IN SOME FIELDS AND DEVELOP NEW ONES. THAT MEANS THE PRESSURE ON THE FINANCIAL SIDE MAY WORK SHORT-TERM, BUT NOT FOR LONG. IRAN, HE SAID, WILL BE ABLE TO EXPAND ITS PRODUCTION ONE WAY OR THE OTHER WITHIN FIVE YEARS, U.S. PRESSURE OR NO.

123. (S) THE QUIET HUMILIATION FACTOR

A FORM OF PRESSURE THAT IS QUITE REAL AND HIGH-IMPACT, IF LESS TANGIBLE, IS QUIET HUMILIATION. IT IS FELT WHEN IRANIAN CITIZENS AND OFFICIALS HAVE THEIR VISA APPLICATIONS REJECTED, WHEN THEY FACE EXTRA SECURITY CHECKS WHILE TRAVELING, AND WHEN THEY HAVE DIFFICULTY BUYING HIGH-TECH GOODS. AS A NATION WITH A LONG HISTORY AND RICH CULTURE, MANY IRANIANS FIND SUCH INTERNATIONAL ILL-REPUTE EXTREMELY GALLING.

124. (S) OUTLOOK

THE CONSENSUS THAT EMERGES FROM OUR IRANIAN CONTACTS IS THAT THERE WILL BE NO REGIME CHANGE FOR AT LEAST A DECADE. THEY SEE NO CHARISMATIC LEADER TO GALVANIZE OPPOSITION. THEY POINT OUT THAT NO ONE WHO REMEMBERS THE LAST REVOLUTION HAS ANY APPETITE FOR ANOTHER ONE. WHEN AND IF

CHANGE COMES, THEY BELIEVE, IT WILL COME FROM THE GENERATION THAT GREW UP AFTER THE 1979 REVOLUTION. MOST OF THESE YOUNG PEOPLE ARE NOW IN THEIR TEENS AND THE PRESSURE FOR CHANGE WILL GROW AS THEY GRADUATE FROM COLLEGE, ENTER THE JOB MARKET, AND SEEK HOMES AND SECURITY FOR THEIR FAMILIES.

125. (S) THE LION IN THE CAGE

ALL THIS POINTS TO LITTLE PROSPECT OF IMMEDIATE POLICY CHANGE IN IRAN. THIS DOES NOT IMPLY PRESSURE SHOULD NOT BE MAINTAINED; ON THE CONTRARY, PRESSURE IS ESSENTIAL BUT SHOULD BE FOCUSED IN ORDER TO HAVE THE DESIRED IMPACT. THE IRANIAN REGIME, HOWEVER RESISTANT TO PRESSURE IT MAY BE IN SOME AREAS, ALSO HAS REAL WEAKNESSES. SANCTIONS ARE THEREFORE AN IMPORTANT ADJUNCT OF POLICY, IF NOT A POLICY IN THEMSELVES. OUR CONTACTS CONCLUDE THAT THE REGIME MIGHT BE OPEN TO CHANGE, BUT WILL NEVER GIVE THE APPEARANCE OF SUCH. ANY TURNAROUND ON KEY ISSUES WILL BE INCREMENTAL, AND POSSIBLY EVEN DISGUISED BY A FEINT IN THE OPPOSITE DIRECTION TO DEMONSTRATE INDEPENDENCE. IN EFFECT, THE U.S. HAS ATTEMPTED TO DESIGN A CAGE OF SANCTIONS AND PRESSURE TO CONTAIN IRAN. BUT THERE IS LITTLE POINT IN KEEPING THE PERSIAN LION IN A CAGE AND JUST PRODDING HIM, GETTING HIM Madder AND Madder. IT DOES NOT FOLLOW THAT THERE SHOULD BE NO PRODDING, BUT RATHER THAT, AT SOME POINT, THE DOOR TO THE CAGE MUST BE OPENED SO THE LION KNOWS WHICH WAY TO GO.

LITT